

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6827

BILL NUMBER: SB 436

NOTE PREPARED: Jan 20, 2015

BILL AMENDED:

SUBJECT: State and Local Taxation.

FIRST AUTHOR: Sen. Hershman

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Consolidated Returns:* This bill provides that if a taxpayer has personal property subject to assessment in more than one township in a county or has personal property that is subject to assessment and that is located in two or more taxing districts within the same township, the taxpayer shall file a single tax return with the county assessor.

Personal Property - Small Taxpayer Exemption: The bill provides a property tax exemption for taxpayers with less than \$20,000 of total business personal property in a county. It removes the requirement in current law that such an exemption is effective in a county only if adopted by the county income tax council.

Personal Property - Valuation Floor: This bill provides that the 30% valuation floor does not apply to Pool 3 equipment and Pool 4 equipment for property tax assessment purposes. It specifies that the minimum valuation of Pool 3 equipment in a single taxing district is 25% of the adjusted cost of all the taxpayer's Pool 3 equipment in the taxing district. It also specifies that the minimum valuation of Pool 4 equipment in a single taxing district is 15% of the adjusted cost of all the taxpayer's Pool 4 equipment in the taxing district.

Soil Productivity Factors: The bill provides that the soil productivity factors used for the March 1, 2011, assessment of agricultural land must be used for the March 1, 2015, assessment date. It specifies that new soil productivity factors shall be used for assessment dates occurring after March 1, 2015.

Farmland Base Rate: This bill provides that for purposes of the March 1, 2015, assessment date, the statewide agricultural land base rate value per acre used to determine the value of agricultural land is \$2,050 per acre (the base rate used for the 2014 assessment date). It also urges the Legislative Council to assign to a study committee the issue of alternative means of agricultural land assessment.

Agricultural Land Classification: The bill specifies that for purposes of property tax assessment, certain land is considered to be devoted to agricultural use.

Agricultural Land Classification - Residential Use: The bill removes the provision specifying that the statute governing the assessment of agricultural land does not apply to land purchased for residential uses.

Appeal Rights: This bill provides that on the form forwarded by the assessor to the county auditor and the property tax assessment board of appeals (PTABOA) after a preliminary informal meeting with a taxpayer, the assessor must attest that the assessor described to the taxpayer the taxpayer's right to a review of the issues by the PTABOA and the taxpayer's right to appeal to the Indiana Board of Tax Review (IBTR) and to the Indiana Tax Court.

Reclassification of Real Property: The bill specifies that in the case of a change occurring after February 28, 2015, in the classification of real property, the assessor has the burden of proving that the change is correct in any review or appeal heard by the PTABOA and in any appeals taken to the IBTR or to the Indiana Tax Court.

Certified Technology Park: This bill does the following in the case of a Certified Technology Park (CTP) that is operating jointly by multiple redevelopment commissions:

- (1) Increases the total maximum amount of tax increment that may be captured.
- (2) Authorizes a party to the agreement to allocate a part of the maximum amount that may be deposited in the party's incremental tax financing fund to one or more other parties to the agreement.

Effective Date: Upon passage; January 1, 2015 (retroactive); March 1, 2015 (retroactive); July 1, 2015.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to track the incremental tax capture amounts for CTPs operating under a joint agreement. DOR's current level of staff and resources should be sufficient to implement the provisions within the bill.

Consolidated Returns: The Department of Local Government Finance (DLGF) will have to update the personal property tax return form to conform with this bill. The DLGF currently prescribes Form 103-SR that is used by certain taxpayers as a single return in the county. The DLGF updates personal property tax returns each year. This change could be incorporated into the annual update.

Farmland Base Rate: This provision urges the Legislative Council to assign the issue of alternative means of agricultural land assessment as a study topic. This provision has no fiscal impact if the Council assigns the topic to an existing study committee and that committee does not hold any additional meetings specifically to study the topic. Interim study committees are subject to budget limits imposed by the Legislative Council.

Explanation of State Revenues: *Certified Technology Parks (CTPs):* This bill increases the maximum lifetime incremental tax capture limit for CTPs who operate under a joint agreement among two or more redevelopment commissions. It provides each redevelopment commission in an agreement with a separate \$5 M lifetime tax capture limit, and it allows the members of an agreement to share the revenue capacity among themselves. The total lifetime capture limit for a CTP equals \$5 M per redevelopment commission in an agreement.

Currently, only the West Gate CTP at Crane Naval Warfare Center operates under a joint agreement. The

agreement is among Daviess, Greene, and Martin Counties. This bill will raise the West Gate CTP's lifetime capture limit to \$15 M beginning in FY 2016. Assuming the members of the agreement will share the available revenue allocation, the West Gate CTP will likely begin capturing about \$1.0 M to \$1.2 M in state Income Tax revenue each year beginning in FY 2016. Revenue deposited into the state General Fund will be reduced by an equal amount. This will continue until the new revenue capture limit is reached.

The maximum amount of incremental Sales Tax, state Income Tax, and local option income tax (LOIT) revenue that a CTP may capture during its lifetime is \$5 M. However, there was an exception made for the West Gate at Crane Naval Warfare Center CTP. The West Gate CTP is allowed to capture a total of \$10 M because it captures revenue from three counties. The West Gate CTP has captured a total of \$7.14 M as of FY 2013 (\$4.98 M from state Income Tax and \$2.15 M from LOIT.)

The bill may also encourage other CTPs who have reached their lifetime incremental tax capture limit to enter into a joint agreement so they can continue receiving distributions of incremental tax revenue.

Summary of NET Local Impact:

Several provisions in this bill affect local revenue. The following table summarizes the effects of the farmland base rate freeze in 2016, the impact of the small personal property return exemption, and the change in the personal property assessment floor.

Estimated Change in Local Revenue (Millions)			
	CY 2016	CY 2017	CY 2018
Farmland Base Rate Freeze	- 10.0	0	0
Personal Property Provisions	0	-22.2	-23.0
Total	-10.0	-22.2	-23.0

A table of estimated change in revenue by county is included at the end of this fiscal note.

Explanation of Local Expenditures: *Consolidated Returns:* This bill will result in a reduction in the number of personal property tax returns that are filed. However, since assessments still must be made at the taxing district level, each consolidated return would have to include assessment calculations by taxing district. Overall, local processing of the consolidated forms may require similar effort as processing of the current returns for each taxing district.

There were almost 300,000 business personal property tax returns filed for property taxes due in 2014. Based on repeated federal ID numbers by county in the return data, it is estimated that up to 79,000 return filings could be eliminated with the filing of consolidated returns.

Under current law, a taxpayer with personal property in two or more taxing districts must file a separate personal property return covering the property in each taxing district. However, a taxpayer must file a single return with the county if the taxpayer has personal property with a total assessed value of less than \$1.5 M and is located in more than one township in a county. A taxpayer filing a single return must furnish a schedule listing the property by township to allow the county assessor to allocate the AV among the

townships.

Filing in Duplicate: This bill will eliminate the current requirement that a business personal property taxpayer file the return in duplicate if the assessed value exceeds \$150,000. Personal property returns are filed with the township assessor, or with the county assessor if no township assessor exists. Under current DLGF rule, the duplicate copy must be forwarded to the county assessor by the township assessor.

There are currently only 13 township assessors remaining in the state so most original returns, along with the duplicates, are filed with county assessors. Elimination of the duplicate returns will reduce compliance costs for the taxpayer as well as handling costs for county assessors.

Appeal Rights: This provision has no fiscal impact.

Explanation of Local Revenues: Personal Property: The small taxpayer exemption and the changes to the valuation floor under this bill will reduce personal property net assessed value by an estimated total of \$2.0 B for taxes payable in 2017 (on a base of \$330.8 B.) The AV reduction will shift property taxes from personal property to other property types. The table below shows the estimated change in 2017 net tax by taxpayer type. Tax shifts in years after 2017 should be similar.

Property Type	2017 Net Tax Change (M)
Homesteads	\$ 8.5
Nonhomestead Residential	3.0
Apartments	0.3
Farmland	3.3
Other Agricultural Real Property	0.7
Other Real Property	6.0
Personal Property	-44.0
Total	-22.2

As a result of the higher tax rates caused by the loss of valuation, circuit breaker losses for local taxing units will increase by an estimated \$26.8 M in 2017. Cumulative and referendum operating fund levies will be reduced by \$230,000, and gross TIF revenue would be increased by \$4.9 M. Total net revenues will decrease by \$22.1 M. The cost of COIT-funded homestead credits will increase by \$0.1 M in the ten adopting counties.

Personal Property - Small Taxpayer Exemption: Under current law (SEA 1 - 2014), beginning with property taxes payable in 2017, the COIT board in each county may provide a property tax exemption for taxpayers who have less than \$20,000 of depreciable asset acquisition cost in the county. This bill removes the county option and makes the exemption applicable statewide beginning with taxes payable in 2017.

For taxes payable in 2014, approximately 144,000 out of 287,700 nonzero returns had less than \$20,000 of cost listed on the return. Most of these taxpayers will be exempt under this provision. These returns had a gross AV of \$623 M and a net AV of \$606 M.

Personal Property - Valuation Floor: The assessed value of each Pay 2014 business personal property tax return was recalculated to simulate this provision. Had this bill been in effect for Pay 2014, net assessed value would have been reduced by about \$427 M for about 65,300 returns and it would have increased by \$83 M for about 5,900 returns. In total, net AV would have decreased by about \$344 M.

Under current law and DLGF rule, business personal property is valued according to a depreciation schedule as specified in the rule. Most taxpayers list the cost of depreciable property in one of four “pools”, depending on the declared useful life of the property. A fifth pool is available for certain integrated steel mill and oil refinery and petrochemical property. Each pool has a different set of depreciation rates for each year of age of the property. The asset cost is multiplied by the appropriate “percent good” factor in the depreciation schedule to produce the total true tax value (TTV) of the assets. The TTV of all of a taxpayer’s depreciable property located in the same taxing district must be at least 30% of the total cost of the property (30% floor). The rule allows for special valuation of special tooling and for an adjustment for abnormal obsolescence of depreciable assets.

Under this provision, the assessment floor will remain at 30% for pools 1 and 2, collectively. Pool #3 will have its own 25% floor, and pool #4 will have its own 15% floor.

Soil Productivity Factors: Under this bill, the current soil productivity factors will remain in place for one additional year, including taxes payable in 2016. The tax shift from all property types to farmland that could otherwise result from the use of the new factors will not occur. Nor will the small reduction in circuit breaker losses and the small reduction in TIF proceeds that could otherwise occur.

Farmland Base Rate: Compared to current law, this provision will result in lower property tax liabilities for farmland owners and higher liabilities on other property types for 2016 only. Under current law, the base rate of assessment for an acre equals \$2,050 for taxes payable in 2015, and is estimated at \$2,420 for 2016, and \$2,770 for 2017. This bill sets the 2016 base rate at \$2,050 (same as 2015). The base rate will return to current estimates in 2017. Total net AV will be \$4.8 B lower for taxes payable in 2016 than under current law (on a base of \$319.7 B.) The AV reduction will shift property taxes from farmland to other property types. The table below shows the estimated change in 2016 net tax by taxpayer type.

Property Type	2016 Net Tax Change (M)
Homesteads	\$ 15.3
Nonhomestead Residential	5.4
Apartments	0.3
Farmland	-52.4
Other Agricultural Real Property	3.8
Other Real Property	7.4
Personal Property	10.2
Total	-10.0

For taxing units, circuit breaker losses will be increased by \$13.0 M, cumulative and referendum operating fund levies will be reduced by \$0.4 M, and gross TIF revenue will be increased by \$3.3 M. Total net revenues will decrease by \$10.1 M. The cost of COIT-funded homestead credits will increase by \$0.1 M in the ten

adopting counties.

Agricultural Land Classification: This provision clarifies that land that is enrolled in certain land conservation or reserve programs and land enrolled in a state classified land program is considered to be devoted to agricultural use. As such, it is assessed as farmland (although classified land is assessed at the rate of \$1 per acre). This provision has no fiscal impact.

Agricultural Land Classification - Residential Use: Under current law, land that is purchased for industrial, commercial, or residential uses is not classified as agricultural. This bill eliminates the exception for land purchased for residential uses. This provision could result in the reclassification of an unknown amount of excess residential land as agricultural beginning with taxes payable in 2016.

Reclassification from excess residential to agricultural will generally decrease assessed value. The AV reduction would cause a shift from these land owners to all other property owners. The AV reduction will cause a tax rate increase that could cause an increase in circuit breaker losses for civil taxing units and school corporations. In addition, the circuit breaker cap for the reclassified land would change from 3% to 2%, also potentially increasing circuit breaker losses.

The amount of land that could be reclassified is unknown, as is the potential fiscal impact. Only a part of the currently classified excess residential land would be reclassified. Only land currently devoted to an agricultural purpose even though it was purchased for residential uses could be reclassified. (In 2015, there were about 1,091,000 acres of excess residential land with an assessed value of about \$4.9 B. The total taxes on the land are about \$106 M.)

Reclassification of Real Property: Beginning March 1, 2015, a local assessor that reclassifies property has the burden of proof in an appeal of the reclassification. This provision could reduce the amount of land being reclassified. Reclassification generally increases the assessed value, so increases in AV due to reclassification could be curtailed.

Certified Technology Parks (CTPs): This bill could result in a reduction of (LOIT) revenue in counties where CTPs are operating under a joint agreement among two or more redevelopment commissions. The bill will affect the counties that jointly operate the Westgate CTP, Daviess, Greene, and Martin County. This bill will reduce LOIT revenue received by those counties beginning in FY 2016. The estimated annual LOIT revenue loss per county is \$257,000 for Daviess County, \$4,065 for Greene County, and \$117,000 for Martin County. This will continue until the new revenue capture limit is reached.

Additional Information - Soil Factors - Each farmland assessment begins with the base value per acre, which is \$2,050 for taxes payable in 2015. The base value is then adjusted by the soil productivity factor and influence factors to calculate the assessed value for a particular parcel. Each parcel may have multiple soil types.

In February 2012, the DLGF released updated soil productivity factors for use in farmland assessments beginning with the 2012 Pay 2013 tax year. These factors would have caused an estimated 25.5% increase in farmland assessments.

Under SEA 19 (2012), the implementation of the updated factors was delayed from 2013 taxes until taxes payable in 2014.

Under SEA 319 (2013), the implementation of updated factors was delayed by an additional year until taxes payable in 2015. This act also required the DLGF to work with the Purdue University College of Agriculture to develop new soil productivity factors.

Under SEA 111 (2014), the implementation of updated factors was delayed by an additional year until taxes payable in 2016.

During the 2013 interim, the DLGF presented draft soil productivity factors developed in conjunction with Purdue University. An LSA analysis of these draft factors suggested that the statewide weighted average factor would be 1.006. This is an average 5.9% increase from the statewide weighted average of the current factors, which is 0.951.

If implemented, the draft factors would increase the statewide total farmland AV by 5.9%. As a result of the farmland AV increase, some tax rates would be reduced. The lower tax rates would cause a small reduction in net tax bills for all other property types and a small reduction in circuit breaker losses for civil taxing units and school corporations. In addition, the lower tax rates would cause a small reduction in TIF proceeds.

State Agencies Affected: Department of State Revenue; Department of Local Government Finance.

Local Agencies Affected: Local assessors; Civil taxing units and school corporations; Daviess, Greene, and Martin Counties.

Information Sources: LSA personal property tax return database; LSA property tax model; Department of State Revenue; Eric Shields, Policy Director - Indiana Economic Development Corporation, 317-234-3997, Office of Fiscal and Management Analysis, *Indiana's Geographically Targeted Development Programs: Certified Technology Parks*, October 2014.

Fiscal Analyst: Bob Sigalow, 317-232-9859; Heath Holloway, 317-232-9867.

**Estimated Change in Taxing Unit Revenue
Farmland Base Rate Freeze and Personal Property Provisions**

Cnty	County	CY 2016	CY 2017	CY 2018
01	Adams	-90,300	-39,700	-42,100
02	Allen	-606,600	-1,358,700	-1,382,100
03	Bartholomew	-112,100	29,500	25,100
04	Benton	-49,000	-5,700	-5,300
05	Blackford	-136,400	-12,200	-12,300
06	Boone	-86,500	-30,100	-23,400
07	Brown	-1,800	900	-800
08	Carroll	-25,700	-8,200	-4,900
09	Cass	-228,400	-78,800	-77,300
10	Clark	-175,400	-252,400	-224,300
11	Clay	2,400	-1,600	-500
12	Clinton	-197,900	-79,100	-81,900
13	Crawford	-103,100	-11,400	-12,300
14	Daviess	-183,800	-339,500	-338,500
15	Dearborn	-144,000	-38,400	-42,300
16	Decatur	13,000	8,000	8,500
17	DeKalb	-66,500	-28,000	-29,600
18	Delaware	-312,900	-217,900	-224,400
19	Dubois	-70,600	-33,900	-31,300
20	Elkhart	-286,000	-531,700	-553,600
21	Fayette	-218,800	-41,800	-39,900
22	Floyd	-10,800	-150,500	-155,300
23	Fountain	-18,000	4,900	3,500
24	Franklin	-20,100	-2,600	-3,100
25	Fulton	-16,600	-1,700	-2,000
26	Gibson	46,100	-32,200	-34,000
27	Grant	-165,900	-68,000	-70,100
28	Greene	-139,300	-42,100	-42,700
29	Hamilton	-347,300	-196,800	-194,100
30	Hancock	-249,000	-98,900	-98,000
31	Harrison	-3,900	0	-400
32	Hendricks	-401,600	-523,400	-522,800
33	Henry	-330,800	-51,800	-45,900
34	Howard	-450,400	-156,000	-152,900
35	Huntington	-220,900	-109,000	-114,200
36	Jackson	-79,900	-87,600	-91,300
37	Jasper	42,900	800	9,800
38	Jay	-165,700	-26,600	-2,000
39	Jefferson	-71,800	-31,200	-30,400
40	Jennings	4,200	-11,600	-11,900
41	Johnson	-296,200	-105,900	-115,800
42	Knox	-143,400	-160,200	-163,800
43	Kosciusko	-22,400	-19,300	-20,800
44	LaGrange	10,300	5,400	5,500
45	Lake	-65,600	-1,469,500	-1,533,700
46	LaPorte	-188,300	-10,197,700	-10,898,600
47	Lawrence	-153,500	-50,100	-53,200
48	Madison	-763,400	-957,800	-972,700
49	Marion	-106,500	-2,013,200	-2,094,800
50	Marshall	-64,300	-32,300	-32,800
51	Martin	-14,100	-3,600	-3,200
52	Miami	-115,900	-42,500	-43,100

**Estimated Change in Taxing Unit Revenue
Farmland Base Rate Freeze and Personal Property Provisions**

Cnty	County	CY 2016	CY 2017	CY 2018
53	Monroe	-17,000	-19,200	-13,800
54	Montgomery	-29,000	-51,400	-51,700
55	Morgan	12,400	5,700	2,800
56	Newton	-67,600	-9,800	-8,200
57	Noble	-82,300	-37,600	-39,900
58	Ohio	-200	-100	0
59	Orange	21,300	4,400	4,700
60	Owen	-27,700	-2,900	-2,000
61	Parke	-1,500	1,000	-1,200
62	Perry	-39,900	-22,700	-23,900
63	Pike	-41,900	-6,700	-6,700
64	Porter	-120,100	-219,500	-236,000
65	Posey	-35,100	-77,600	-77,300
66	Pulaski	-1,200	-1,100	700
67	Putnam	-20,200	-18,400	-16,700
68	Randolph	-194,400	-27,400	-28,300
69	Ripley	-7,200	-2,300	-1,700
70	Rush	-146,000	-41,700	-43,300
71	St. Joseph	-248,900	-374,900	-403,100
72	Scott	-37,100	-36,000	-37,900
73	Shelby	2,900	-125,900	-124,700
74	Spencer	189,700	-6,900	-2,900
75	Starke	-70,500	-7,500	-7,700
76	Steuben	-39,100	-19,400	-19,500
77	Sullivan	-81,300	-23,000	-21,800
78	Switzerland	-3,000	-800	-2,000
79	Tippecanoe	-52,900	-123,200	-118,000
80	Tipton	-19,700	-11,300	-30,800
81	Union	-51,800	-8,200	-8,400
82	Vanderburgh	-188,600	-590,600	-601,900
83	Vermillion	-117,700	-24,500	-23,900
84	Vigo	-465,800	-226,900	-232,600
85	Wabash	19,900	-1,100	-2,300
86	Warren	-2,200	-400	-300
87	Warrick	-13,200	-9,700	-12,500
88	Washington	-101,600	-29,500	-25,900
89	Wayne	-407,400	-284,900	-290,000
90	Wells	-28,700	-1,200	-3,100
91	White	-28,400	-21,300	-22,100
92	Whitley	29,600	17,200	18,000
	Indiana	-10,115,900	-22,139,000	-23,093,900